

Message Text

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ACTION TRSE-00

INFO OCT-01 ARA-06 EB-07 SP-02 USIA-06 AID-05 NSC-05

CIEP-01 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01

L-03 H-02 PA-01 PRS-01 ISO-00 /081 W

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R 242104Z SEP 76

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 4891

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E.O. 11652: N/A

TAGS: EFIN, VE

SUBJECT: BALANCE OF PAYMENTS AND DEBT PROSPECTS

REF: STATE 223505

1. SUMMARY-VENEZUELA'S CURRENT ACCOUNT SURPLUS WILL CONTINUE TO DECLINE SUBSTANTIALLY AS IMPORT PAYMENTS INCREASE FASTER THAN EXPORT EARNINGS, WHICH ARE RESTRAINED BY THE GOV'S DECISION TO MAINTAIN A CONSTANT LEVEL OF PETROLEUM EXPORTS SOMEWHAT LOWER THAN CURRENT CAPACITY. FISCAL AND BALANCE OF PAYMENTS PRESSURES MAY EVENTUALLY PLACE RESTRAINTS ON GOV DEVELOPMENT PLANS, BUT NOT DURING THE NEXT TWO YEARS. THE GOV PLANS TO USE SUBSTANTIAL AMOUNTS OF FOREIGN CREDIT TO FINANCE ITS DEVELOPMENT PLANS, BUT PLANS DO NOT CALL FOR A LARGE INCREASE IN THE OVERALL FOREIGN PUBLIC DEBT LEVEL. END SUMMARY

2. FOLLOWING INFORMATION IS SUPPLIED IN RESPONSE TO REFTEL:

BALANCE OF PAYMENTS

VENEZUELA

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(MILLIONS OF U.S. DOLLARS)

CURRENT ACCOUNT	1974	1975	1976	1977
MERCHANDISE EXPORTS 1)	11,109	8,899	9,570	10,340
MERCHANDISE IMPORTS	-3,876	-5,462	-6,550	-8,500
SERVICES (NET)	-1,180	-1,729	-1,500	-1,350
TRANSFERS	-194	-176	-160	-160
BALANCE ON				
CURRENT ACCOUNT	5,859	1,532	1,360	330
CAPITAL ACCOUNT				
OFFICIAL LONG TERM	-179	-12	-100	300
OFFICIAL SHORT TERM	-23	10	-1,000	0
NET PRIVATE (INCLUDING				
ERRORS AND OMISSIONS)	-1,631	983	-860	-500
CHANGE IN INTER-				
NATIONAL RESERVES	-4,026	-2,513	600	-130
(MINUS EQUALS INCREASE)				

1) PETROLEUM EXPORTS IN REALIZED PRICES

SOURCES: 1974 AND 1975 CENTRAL BANK, ANNUAL REPORT, 1975
 1976 AND 1977-EMBASSY ESTIMATES, BASED PARTIALLY
 ON CORDIPLAN ESTIMATES IN THE FIFTH NATIONAL PLAN

3. COMMENTS:

MERCHANDISE EXPORTS-OFFICIAL CENTRAL BANK BALANCE OF PAYMENTS DATA INCLUDE PETROLEUM EXPORTS AT TAX REFERENCE VALUES, WITH CORRESPONDING NEGATIVE INCREASE IN SERVICE (INVESTMENT) ACCOUNT. EMBASSY HAS RECALCULATED MERCHANDISE EXPORTS USING FOLLOWING "REALIZED" PETROLEUM PRICES IN DOLLARS PER BARREL: 1974-10.53; 1975-11.00; 1976-11.25; 1977-12.00. EMBASSY ASSUMES THAT PETROLEUM EXPORTS DURING 1976-77 WILL BE ABOUT TWO MILLION BARRELS PER DAY, IN ACCORDANCE WITH THE FIFTH NATIONAL PLAN.

MERCHANDISE IMPORTS 1)-IMPORTS IN 1976 ARE ESTIMATED TO INCREASE 20 PERCENT, LESS THAN HALF THE 41 PERCENT INCREASE LIMITED OFFICIAL USE

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IN 1975. THIS IS BASED ON EFFECT OF GOV POLICIES TO RESTRAIN DEMAND AND LIMITATIONS ON PHYSICAL CAPACITY TO SUSTAIN HIGHER RATE OF INCREASE. EMBASSY ESTIMATES THAT IMPORT EXPANSION IN 1977 WILL ACCELERATE TO 30 PERCENT, REFLECTING CONTINUED HIGH DEMAND AND INCREASE IMPLEMENTATION OF MAJOR PUBLIC SECTOR PROJECTS.

SERVICES-THE DECREASE IN SERVICE OUTFLOW FOR 1976 AND 1977

ASSUMES SIGNIFICANT DECREASE IN INVESTMENT INCOME OUTFLOW
DUE NATIONALIZATION OF OIL INDUSTRY.

OFFICIAL LONG TERM CAPITAL-THE INFLOW IN 1977 ASSUMES
DRAWING DOWN OF FOREIGN LOANS FOR MAJOR PUBLIC SECTOR
PROJECTS.

OFFICIAL SHORT TERM CAPITAL-THE LARGE OUTFLOW IN 1976
ESTIMATED AS RESULT OF ASSUMPTION BY NATIONALIZED OIL
INDUSTRY OF RESPONSIBILITY FOR COMMERCIAL FINANCING OF
OIL EXPORTS. A DECISION WAS MADE THAT PETROVEN SHOULD
FINANCE THE CREDIT FROM ITS OWN RESOURCES, RATHER THAN
SEEK FOREIGN FINANCING.

NET PRIVATE CAPITAL-THE INCREASE IN 1975 APPARENTLY WAS
DUE MAINLY TO A SPECULATIVE INFLOW OF CAPITAL ANTICIPATING
A BOLIVAR REVALUATION WHICH NEVER TOOK PLACE.

CHANGE IN INTERNATIONAL RESERVES-THE DECISION OF
PETROVEN TO PROVIDE OIL INDUSTRY FINANCING FROM ITS OWN
RESOURCES, COMBINED WITH INITIAL DIFFICULTIES OF THE
NEWLY NATIONALIZED INDUSTRY IN MAINTAINING THE NORMAL
LEVEL OF EXPORTS RESULTED IN LOSS OF \$1,400 MILLION IN
INTERNATIONAL RESERVES IN THE FIRST QUARTER OF 1976.
INCREASED DEMAND AND HIGHER REALIZED PRICES FOR PETROLEUM
EXPORTS SHOULD RESULT IN RECOVERY OF MORE THAN HALF OF
THIS LOSS BY THE END OF 1976.

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TO SECSTATE WASHDC 4892

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4. GENERAL COMMENT-VENEZUELA IS EMBARKING ON AN AMBITIOUS DEVELOPMENT PLAN (PLAN V) AT A TIME WHEN ITS CURRENT ACCOUNT SURPLUS IS BEING ERODED SUBSTANTIALLY. EXPORT EARNINGS COULD BE INCREASED SUBSTANTIALLY BY EXPANDING PETROLEUM EXPORTS OVER THE NEXT TWO YEARS, BUT THE GOV HAS DECIDED TO CONSERVE THESE RESOURCES AND STRETCH THEM OUT OVER A LONGER PRIOD. THE EMBASSY SEES NOTHING ON THE HORIZON DURING THE NEXT TWO YEARS WHICH WILL CAUSE THE GOV TO MAKE ANY FUNDAMENTAL ALTERATION IN ITS PLANS. THE VENEZUELAN INVESTMENT FUND HAS SOME \$5 BILLION IN ASSETS WHICH CAN BE DRAWN ON TO IMPLEMENT GOV PLANS. THE EMBASSY ANTICIPATES THAT FISCAL AND BALANCE OF PAYMENTS PRESSURES WILL EVENTUALLY PLACE THE GOV IN A TIGHTER POLICY BIND, BUT NOT UNTIL THE CLOSING YEARS OF THE CURRENT DECADE.

5. PUBLIC EXTERNAL DEBT

(MILLIONS OF U.S. DOLLARS)

6-30-76 12-31-76 12-31-77 12-31-78 12-31-79 12-31-80

CURRENT DEBT 4,013 3,509 3,000 2,544 2,003 1,447

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CONTRACTED - 116 1,093 2,047 2,585 2,734

TOTAL 4,013 3,625 4,093 4,591 4,588 4,181

SOURCE: MINISTRY OF FINANCE

6. COMMENT: UNTIL RECENTLY, LITTLE INFORMATION HAS BEEN AVAILABLE REGARDING VENEZUELA'S DEBT, PUBLIC OR PRIVATE. INFORMATION ON OFFICIAL PUBLIC DEBT AUTHORIZED BY THE CONGRESS HAS BEEN COMPILED AND PUBLISHED REGULARLY FOR MANY YEARS, BUT NOT EVEN THE CENTRAL BANK OR MINISTRY OF FINANCE HAD AN ACCURATE RECORD OF THE MANY EXTERNAL OBLIGATIONS CONTRACTED BY A MYRIAD OF OFFICIAL INSTITUTIONS WHICH WERE FREE TO BORROW WITHOUT AUTHORIZATION FROM THE CENTRAL AUTHORITIES.

7. RECENTLY, HOWEVER, THE GOV HAS UNDERTAKEN TO EXERCISE CENTRAL CONTROL OVER PUBLIC BORROWING. IN THE PROCESS OF ESTABLISHING SUCH CONTROL, IT HAS COMPILED RECORDS OF PUBLIC OBLIGATIONS AND PLANS TO CONSOLIDATE SOME ONE BILLION DOLLARS OF SHORT TERM "FLOATING" OBLIGATIONS CONTRACTED

BY MANY DECENTRALIZED GOVERNMENT INSTITUTIONS INTO LONG
TERM NATIONAL OBLIGATIONS.

8. THE BALANCE SHOWN ABOVE FOR JUNE 1976 IS THE RECENTLY-
COMPILED GOV RECORD OF ALL EXTERNAL PUBLIC DEBT OBLIGATIONS
OF THE NATIONAL GOVERNMENT. YEAR-END BALANCES FOR 1976-80
ARE GOV ESTIMATES FOR ITS PUBLIC CREDIT PROGRAM, DESIGNED
TO FINANCE THE FIFTH NATIONAL PLAN (1976-80). BALANCES FOR
EXTERNAL DEBT PLANNED BUT NOT YET CONTRACTED ARE SHOWN
SEPARATELY. NO ESTIMATES OF DEBT SERVICE OBLIGATIONS
WERE PROVIDED, BUT THE EMBASSY ASSUMES THAT THE INTEREST COMPONENT
WILL BE APPROXIMATELY 7 OR 8 PERCENT OF THE BALANCES SHOWN. IT
SHOULD BE NOTED THAT THE GOV DOES NOT INTEND TO RAISE THE
LEVEL OF ITS EXTERNAL DEBT SIGNIFICANTLY, DESPITE THE LARGE
INVESTMENTS PLANNED UNDER PLAN V. ESSENTIALLY, THROUGH
BETTER CONTROL, THE GOV PLANS TO CHANNEL ITS USE OF
PUBLIC CREDIT TO MORE PRODUCTIVE PURPOSES. THE EMBASSY
HAS NOT BEEN ABLE TO OBTAIN A RELIABLE ESTIMATE OF
PRIVATE EXTERNAL DEBT.

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